MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

The following is a discussion and analysis of the operating results and financial position of Cipher Pharmaceuticals Inc. and its subsidiaries ("Cipher" or "the Company") for the three and six months ended June 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. Additional information about the Company, including the Annual Financial Statements and Annual Information Form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ("MD&A") are as at August 10, 2017. All dollar figures are stated in U.S. dollars unless otherwise indicated.

Caution Regarding Forward-Looking Statements

This document includes forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and other provincial securities law in Canada and U.S. securities laws. These forward-looking statements include, among others, statements with respect to our objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, our ability to enter into in-licensing, development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on a limited number of products; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of certain products; the product approval process is highly unpredictable; the timing of completion of clinical trials; reliance on third parties to manufacture our products; we may be subject to future product liability claims; unexpected product safety or efficacy concerns may arise; we generate license revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; dependence on key managerial personnel and external collaborators; no assurance that we will receive regulatory approvals in the U.S., Canada or any other jurisdictions; current uncertainty surrounding health care regulation in the United States; certain of our products are subject to regulation as controlled substances; limitations on reimbursement in the healthcare industry; limited reimbursement for products by government authorities and third-party payor policies; various laws pertaining to health care fraud and abuse; reliance on the success of strategic investments and partnerships; the publication of negative results of clinical trials; unpredictable development goals and projected time frames; rising insurance costs; ability to enforce covenants not to compete; risks associated with the industry in which it operates; we may be unsuccessful in evaluating material risks involved in completed and future acquisitions; we may be unable to identify, acquire or integrate acquisition targets successfully; inability to meet covenants under our long term debt arrangement; compliance with privacy and security regulation; our policies regarding returns, allowances and chargebacks may reduce revenues; certain current and future regulations could restrict our activities; additional regulatory burden and controls over financial reporting; reliance on third parties to perform certain services; general commercial litigation, class actions, other litigation claims and regulatory actions; the effects of our delisting from the NASDAQ Global Market (the "NASDAQ") and deregistration of our Common Shares under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"); the difficulty for shareholders to realize in the United States upon judgments of U.S. courts predicated upon civil liability of the Company and its directors and officers who are not residents of the United States; certain adverse tax rules applicable to U.S. holders of our Common Shares if we are a passive foreign investment company for U.S. federal income tax purposes; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent laws; litigation in the pharmaceutical industry concerning the manufacture and supply of novel and generic versions of existing drugs; inability to protect our trademarks from infringement; shareholders may be further diluted if we issue securities to raise capital; volatility of our share price; the actions of a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; and our debt obligations will have priority over the Common Shares in the event of a liquidation, dissolution or winding up.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the "Risk Factors" section of our Annual Information Form and in our Management's Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2016, and elsewhere in our filings with Canadian securities regulators. Except as required by Canadian securities law, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

Market Industry Data

The market and industry data contained in this MD&A is based upon information from independent industry and other publications and our knowledge of, and experience in, the industry in which the Company operates. Market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data at any particular point in time, the voluntary nature of the data gathering process or other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data are not guaranteed. Cipher has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources**.**

Overview

Cipher (TSX:CPH) is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late-stage products. Cipher acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets these products directly in Canada or indirectly through partners in the U.S., Canada and South America.

On May 1, 2017, the Company, through its wholly owned subsidiary Cipher Pharmaceuticals US LLC ("Cipher U.S.") sold substantially all of the assets of its U.S. segment. (see – Significant Transactions – U.S. Asset Sale). The Company no longer directly markets products in the U.S.

Corporate Strategy

Cipher's corporate strategy is to build a portfolio of prescription products across a broad range of therapeutic areas that meet an unmet medical need. The focus on the Company's strategy is to:

- Acquire or in-license prescription medicines for the Canadian market;
- Acquire businesses with commercial products, proven capabilities or where substantial synergies are available;
- Out-license products in markets where Cipher does not have a commercial presence; and
- Selectively invest in drug development programs where we see a favourable risk/return profile.

The Company is actively assessing and sourcing opportunities that would build on the strengths of the organization, including a scalable commercial infrastructure in Canada. The execution of any transactions is contingent on the Company being able to negotiate acceptable terms and securing the necessary financing.

Significant Transactions

U.S. ASSET SALE

On May 1, 2017, the Company sold substantially all of the assets of Cipher US (formerly known as Innocutis Holdings LLC). Under the terms of the asset purchase agreement (the "U.S. APA"), the Company received consideration of $13.6 million, subject to certain working capital adjustments and the transfer of certain liabilities as more particularly set out in the U.S. APA**.** The Company retained responsibility for certain liabilities and commitments related to the assets sold. The agreement also included a potential regulatory milestone of $0.75 million payable to the Company if certain predefined conditions are achieved and includes a hold back of $1.7 million which will be settled 18 months from the date of closing. On closing, the Company received $7.6 million in cash.

Prior to the Cipher U.S. asset sale, the Company operated two distinct business operations: Canada and the United States. Subsequent to the sale, the Company will only operate one segment.

SENIOR SECURED NOTES

On March 31, 2017, the Company entered into its sixth amendment to the Securities Purchase Agreement (the "Amendment") with its lender to amend the terms of the Senior Secured Notes (the "Notes") under the original Securities Purchase Agreement (the "Original SPA"), dated April 13, 2015. In connection with the Amendment, the Company agreed to prepay $20.0 million of the outstanding Notes balance on April 5, 2017. The Amendment was accounted for as an extinguishment as the terms of the amended agreement were substantially different from the Original SPA. Therefore, the unamortized costs related to the Notes were accelerated and recognized as part of the loss on extinguishment. In addition, on April 5, 2017 the Company paid the 5% borrowing fee, the 5% prepayment penalty and an amendment fee (together, the "Financing fees"), which have been recognized as part of the loss on extinguishment. In consideration for the prepayment, the lender waived the requirement that the net cash proceeds from the sale of the U.S. assets be used to prepay the Notes, modified the financial covenants and removed its security interest on the assets of Cipher U.S.

Significant Partnerships

GALEPHAR

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement (the “Galephar Agreement") with Galephar, Pharmaceutical Research, Inc. (“Galephar”), a Puerto Rico based pharmaceutical research and manufacturing company. Under the Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER ("the CIP Products") in various territories. In particular, the Company has the rights to sell, market and distribute, on a perpetual basis, as follows:

- exclusive rights throughout the world for Galephar’s capsule formulation of Tramadol;
- exclusive rights in North, South and Central America, the Caribbean and Bermuda for Galephar’s capsule formulation of Isotretinoin and non-exclusive rights in certain other countries; and
- exclusive rights in North, South and Central America, the Caribbean and Bermuda for Galephar’s capsule formulation of Fenofibrate and non-exclusive rights in certain other countries.

Cipher is obliged to pay Galephar fifty percent (50%) of any (i) distribution fees it receives, (ii) net sales revenue less manufacturing costs and (iii) royalties received, except that prior to issuance of a patent for a product, only 30% of royalties are payable. If Cipher or its affiliates are directly selling to wholesalers, 12% of net sales received by Cipher is payable to Galephar, or 7% prior to issuance of a patent. No payments are required with respect to a sale of a product occurring 20 years after the first sale of the product in the country or, if a patent is obtained, when the patents lapse in that country for the product, whichever is later. Galephar also supplies product to Cipher through commercial supply agreements for each product.

In 2016, Galephar entered into an agreement with another party (the “Galephar Assignee”) to assign certain rights relating to CIP-ISOTRETINOIN in the U.S. market. The Company consented to this agreement, agreeing to remit revenue on the same terms as the Galephar Agreement from licensing and distribution within the U.S. for CIP-ISOTRETINOIN directly to the Galephar Assignee.

On May 11, 2017, the founder, vice president and a shareholder of Galephar was elected to the Company’s Board of Directors as a non-independent member.

Commercial Products

EPURIS® (CIP-ISOTRETINOIN)

CIP-ISOTRETINOIN is an innovative formulation of the active ingredient isotretinoin, which is used in the treatment of severe acne. CIP-ISOTRETINOIN, which is based on the oral Lidose® technology, has been in-licensed from Galephar. CIP-ISOTRETINOIN provides more consistent absorption under fed and fasted conditions, as compared to existing isotretinoin products. Due to its high lipophilicity, oral absorption of isotretinoin is enhanced when given with a high-fat meal. CIP-ISOTRETINOIN is bioequivalent to Accutane® (isotretinoin) capsules when both drugs are taken with a high-fat meal. However, when both drugs are taken under fasted conditions, CIP-ISOTRETINOIN provides 83% greater absorption than Accutane (isotretinoin) capsules.

CIP-ISOTRETINOIN was approved by Health Canada in Q4 2012 under the trade name Epuris® and Cipher launched the product in Canada in June 2013.

BETEFLAM® PATCH

In 2012, Cipher obtained the exclusive license and distribution rights in Canada to market the Beteflam® Patch (previously named the Betesil Patch), a novel, patent-protected, self-adhesive medicated plaster for the treatment of inflammatory skin conditions such as plaque psoriasis, from Institut Biochemique SA (“IBSA”). The Beteflam® Patch is expected to provide distinct advantages over existing treatment options, particularly for patients who suffer from plaque psoriasis in hard to treat areas such as knees and elbows. The efficacy and safety of the product has been established in three successful European phase III trials and one successful phase IV trial conducted by IBSA. The Beteflam® Patch is currently marketed in several European countries and was launched in Canada in April 2016.

Under the terms of the agreement with IBSA, IBSA supplies the finished product to Cipher and is eligible for certain milestones based on commercial and regulatory targets. The term of the agreement is for ten years, which commenced in August 2012 with an automatic renewal for an additional five year period.

ACTIKERALL®

Actikerall® (0.5% fluorouracil and 10% salicylic acid) is indicated for the topical treatment of slightly palpable and/or moderately thick hyperkeratotic actinic keratosis (Grade I/II) of the face, forehead, and balding scalp in immunocompetent adult patients. Actinic keratosis, also known as solar keratosis, is a skin condition caused by exposure to ultraviolet radiation. Cipher acquired Actikerall® from Almirall S.A. ("Almirall") in May 2015 and the product was launched in Canada in February 2016. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of ten years, which commenced in April 2015 with automatic annual renewals.

VANIQA®

Vaniqa® is a prescription cream clinically proven to reduce the growth of unwanted facial hair in women. Vaniqa cream is an enzyme inhibitor and works by blocking an enzyme necessary for hair to grow. The product was approved by Health Canada in May 2001. Cipher acquired Vaniqa® from Almirall in May 2015. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of 10 years, which commenced in March 2015 with automatic annual renewals. The Company launched Vaniqa® in the Canadian market in June 2015.

Licensed Products

CIP-ISOTRETINOIN

United States - Absorica®

In 2012, Cipher's U.S. distribution partner Ranbaxy Laboratories Inc. ("Ranbaxy") a Sun Pharma Company, launched CIP-ISOTRETINOIN under the trade name Absorica®. According to IMS Health ("IMS"), the U.S. isotretinoin market was over $643 million in 2016.

Absorica® is currently protected by five issued patents which are Orange Book listed and expire in September 2021. Galephar was issued a product patent (Patent Number 7,435,427) from the U.S. Patent and Trademark Office in 2008 with a second patent (Patent Number 8,367,102) issued in 2013. A third patent (Patent Number 8,952,064) was issued in February 2015 and the fourth and fifth patents (Patent Numbers 9,078,925 and 9,089,534, respectively) were issued in July 2015. The five patents are formulation-related patents describing the product ingredients.

In September 2013, Ranbaxy received a Paragraph IV Certification Notice of filing from Actavis of an abbreviated new drug application ("ANDA") to the Food and Drug Administration ("FDA") for a generic version of Absorica® (isotretinoin capsules). A Paragraph IV Certification Notice is when the sponsor company of the ANDA believes that it is not infringing the patent and/or the patent is not valid. A patent infringement lawsuit against Actavis was filed by Ranbaxy, Cipher and Galephar in October 2013 and, as a result, the ANDA was subject to a 30-month stay of FDA approval, beginning on the date the notification letter was received. In October 2015, the Company, along with Ranbaxy and Galephar, entered into a settlement agreement with Actavis that dismissed the patent litigation suit. As part of the settlement agreement, Cipher, Ranbaxy and Galephar entered into a non-exclusive license agreement with Actavis under which Actavis may begin selling its generic version of Absorica® in the U.S. on December 27, 2020 (approximately nine months prior to the expiration of the patents in September 2021) or earlier under certain circumstances.

Under the terms of the agreement with Ranbaxy, the Company receives a royalty percentage in the mid-teens on net sales. Cipher's agreement with Ranbaxy is for a period of ten years from the first commercial sale expiring in November 2022 and Ranbaxy has the right to extend the term for additional two year periods.

Rest of World

In 2014, the Company entered into a distribution and supply agreement with Laboratorios Andrómaco S.A. ("Andrómaco") under which Cipher granted Andrómaco the exclusive right to market, sell and distribute Cipher's isotretinoin capsules in Chile. The registration process was completed for 10 mg, 20 mg and 30 mg strengths, however, Andrómaco did not launch the product. In January 2017, the Company terminated this agreement. The Company is looking for a new licensing partner for this market.

In 2014, the Company entered into a definitive distribution and supply agreement with Ranbaxy Laboratories Ltd. ("Ranbaxy India"), a Sun Pharma Company, under which Cipher granted Ranbaxy India the exclusive right to market, sell and distribute isotretinoin capsules in Brazil. Ranbaxy India plans to promote the product through a brand dermatology division in Brazil. Under the terms of this agreement, Cipher received an upfront payment and may be eligible for additional pre-commercial milestone payments. Cipher will supply the product and product manufacturing will be fulfilled by Galephar. Ranbaxy India will be responsible for all regulatory-related activities associated with gaining and maintaining regulatory approval of the product in Brazil. The product is not currently approved in Brazil.

LIPOFEN® (CIP-FENOFIBRATE)

Lipofen® is a novel formulation of the active ingredient fenofibrate, which is used in the treatment of hyperlipidemia, a cholesterol disorder. Hyperlipidemia is a condition characterized by high levels of low-density lipoprotein ("LDL") cholesterol and/or triglycerides (a type of fat found in the blood). Fenofibrate is known to lower LDL cholesterol and triglycerides and increase high-density lipoproteins ("HDL"), known as "good cholesterol". Cipher's U.S. marketing and distribution partner for Lipofen® is Kowa Pharmaceuticals America, Inc. ("Kowa").

According to IMS, the hyperlipidemia market in the U.S. exceeded $11.1 billion in 2016 and is made up of three primary groups of drugs: statins, fibrates and the prescription DHA/EPA (omega 3) market. The market for existing fenofibrate formulations in the U.S. exceeded $630 million in 2016.

Lipofen® was launched in the U.S. market in 2007. In 2014, Cipher and Kowa agreed to pre-emptively launch an authorized generic version of Lipofen® in advance of the expiration of the product patent in January 2015.

CONZIP® / DURELA® (CIP-TRAMADOL ER)

CIP-TRAMADOL ER is a novel, extended-release formulation of the active ingredient tramadol, which is used for the management of moderate to moderately severe pain. CIP-TRAMADOL ER uses oral controlled-release beads, a drug delivery technology licensed from Galephar. Patents that expire in 2022 have been issued both in the U.S. and Canada for the product.

United States

The product received FDA approval in 2010. In June 2011, Cipher entered into a distribution and supply agreement with Vertical Pharmaceuticals Inc. ("Vertical"), a U.S. based specialty pharmaceutical company and the product was launched in the U.S. in September 2011 under the trade name ConZip®. Under the terms of the agreement with Vertical, the Company receives a mid-teen royalty on net sales. The Company is responsible for product supply and manufacturing, which is fulfilled by Galephar.

According to IMS, the U.S. market in 2016 for extended release formulations of tramadol exceeded $50 million, which represents 43.4% of the total tramadol immediate release and extended release prescription market. An authorized generic version of the product was launched by Vertical in the U.S. market in July 2015.

In 2016, the FDA required a new black box warning for tramadol products on the risks of addiction, abuse, misuse, life-threatening respiratory depression and interactions with central nervous system depressants including alcohol. In 2017, the FDA requested further class/labelling requirements to the black box warning, with respect to the pediatric population. In addition, the FDA said that a new Risk Evaluation and Mitigation Strategy ("REMS") program would be required.

Canada

In August 2011, Cipher received Health Canada approval for CIP-TRAMADOL ER and in September 2011, Cipher entered into a distribution and supply agreement with Medical Futures Inc. ("Medical Futures"), a Canadian-based pharmaceutical company, under which Cipher granted Medical Futures the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Canada under the trade name Durela®. Medical Futures was subsequently acquired by Tribute Pharmaceuticals Canada Inc. ("Tribute") and during the same month POZEN Inc. announced the completion of the acquisition of Tribute. Effective, February 5, 2016, the new combined company was named Aralez Pharmaceuticals Inc. The Company receives a royalty on net sales of Durela in Canada. Cipher will supply the product and product manufacturing will be fulfilled by Galephar.

According to IMS, the Canadian market for extended-release tramadol was approximately CDN$28.0 million in 2016.

Health Canada has required market authorization holders of tramadol products to conduct an abuse potential observational study. Cipher is part of the consortium of Canadian tramadol manufacturers overseeing and funding this study. The study is expected to be initiated in 2017 and the total cost estimate is approximately $2.0 million which will be shared by the consortium.

Rest of World

In April 2013, Cipher entered into a distribution and supply agreement with Tecnofarma International Ltd. ("Tecnofarma") under which Tecnofarma was granted the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Latin America. Tecnofarma, headquartered in Uruguay, operates in 18 Latin American countries and plans to launch the product in certain territories, including Brazil and Mexico. Under the terms of the agreement, Cipher received an upfront payment and is eligible for additional milestones based upon regulatory approval in Brazil and Mexico. Cipher will supply product to Tecnofarma and product manufacturing will be fulfilled by Galephar. Tecnofarma launched CIP-TRAMADOL ER in Argentina in May 2016.

Product Pipeline

The Company continues to pursue the acquisition or in-licensing of new early to late-stage to commercial-stage product candidates.

OZENOXACIN

In 2015, Cipher in-licensed the Canadian rights to OZANEX™ (ozenoxacin 1%), a topical treatment for adult and paediatric patients with impetigo, from Ferrer International SA ("Ferrer"), a privately-held Spanish pharmaceutical company. Under the terms of the agreement, Ferrer received an upfront payment and is eligible for development milestones and revenues from product sales in Canada. Ferrer will manufacture OZANEX™ and deliver finished product to Cipher.

On May 2, 2017, Cipher received a Notice of Compliance from Health Canada, approving the sale of OZANEX™. The Company paid a CDN $0.2 million milestone to Ferrer upon obtaining regulatory approval in Canada. Under this agreement, all milestones have been paid. The Company is targeting a product launch in late 2017 or early 2018. Cipher is not responsible for any future development costs, should any be required.

SITAVIG®

Sitavig® is a unique, timed-release, mucoadhesive buccal tablet containing acyclovir indicated for the treatment of recurrent herpes labialis (cold sores) in immunocompetent adultsThe prescription herpes labialis market is largely genericized. The Company's New Drug Submission for Sitavig® was accepted for review by Health Canada in March 2017, however, in evaluating the business case for Sitavig® in Canada, the Company decided not to move forward with this program.

DERMADEXIN™, PRURIDEXIN™ AND ASF-1096

In 2015, Cipher acquired the worldwide rights to three products from Astion Pharma ("Astion"), a Denmark-based specialty pharmaceutical company. The three products are focused on inflammatory dermatological diseases: Dermadexin™, Pruridexin™, and ASF-1096. Dermadexin™ and Pruridexin™ target common, chronic conditions that the Company believes are insufficiently addressed today. The terms of the agreement with Astion included an upfront payment of $6.0 million. The agreement includes approximately $34.1 million in additional payments contingent upon clinical milestones, regulatory approvals, commercialization and sales milestones in the both the U.S. and other regions. Over time, Cipher expects to out-license the products to partners in certain other regions.

In Q3 2015, Cipher received an Acceptance Review Notification for its 510(k) submissions for both Dermadexin™ and Pruridexin™ to the FDA. The notification confirmed that the submission contained all of the necessary elements and information needed to proceed with the substantive review. The FDA put the review on hold due to the uncertainty of the functions of the ingredients. The FDA requested that Cipher submit a "Request for Determination" ("RFD") to the Office of Combination Products to determine whether the products are considered drugs or devices. In April 2016, Cipher submitted an informal RFD for Dermadexin™ and received a non-binding regulatory determination that the product, which contained nicotinamide (a new ingredient not listed in the device database) should be reviewed under the jurisdiction of the Center for Drug Evaluation and Research (CDER).

In April 2016, Cipher received Health Canada approvals (via Natural and Non-Prescription Health Products Directorate "NNHPD") for DexiDerm SD Cream and DexiDerm AD Cream (also known as Dermadexin™ and Pruridexin™) and is developing a strategy to commericialize the products in Canada. DexiDerm CD was approved by the NNHPD in August 2016 and DexiDerm Scalp was approved in November 2016.

Helioclin® Dermatitis SD Cream (also known as Dermadexin™) was approved in Europe in 2014 and Helioclin® Pruritus SD Cream (also known as Pruridexin™) was approved in April 2016, each as a Class III medical device.

Cipher is seeking partners for Dermadexin™ and Pruridexin™.

ASF-1096

Cipher has an orphan drug indication in the European Union for ASF-1096, a product candidate in the European market that the Company believes has promise as a treatment for discoid lupus erythematosus,a highly disfiguring rare disease with no current cure, as well as other potential rare conditions. In the U.S., this indication does not meet the requirements for orphan drug status. Cipher is reviewing the drug development program and potential indications to support the approval of ASF-1096 in the North American and European markets. In June 2016, Cipher entered into a definitive licensing agreement with Edesa Biotech Inc. ("Edesa"), under which Cipher granted Edesa the exclusive worldwide rights to develop, market and sell ASF-1096 for the treatment of anorectal indications. Under the terms of the agreement, Cipher is eligible to receive clinical, regulatory and commercial milestone payments, along with a royalty on net sales.

CF101

In 2015, Cipher in-licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite Biopharma Ltd. (“Can-Fite”) for moderate to severe plaque psoriasis and rheumatoid arthritis.

Can-Fite completed a phase II/III double-blind, placebo-controlled study, which was designed to test the efficacy of CF101 in patients with moderate to severe plaque psoriasis. The study enrolled 326 patients through 17 clinical centers in the U.S., Europe, and Israel. Top-line results from the trial were published by Can-Fite at the end of March 2015. Results from this phase II/III trial and final results from the prior phase II trial in psoriasis were both positive showing that CF101 effectively improved disease symptoms. In addition, at the end of 2013, Can-Fite completed a phase IIb study for CF101 for active rheumatoid arthritis (“RA”), and has now completed the study design for a phase III program. Can-Fite commenced patient enrolment into the phase III RA program in the second quarter of 2017 and expects to start the psoriasis phase III program in the second half of 2017, with patient enrolment commencing early 2018. The timeline to regulatory submissions to Health Canada will be determined by the successful completion of these registration clinical trial programs. Cipher is not responsible for any of these development costs.

Approximately 500,000 people in Canada receive treatment for psoriasis. In moderate to severe cases, the most common treatment options are systemic biologic drugs, which are delivered by injection or intravenous infusion and have well-known shortcomings, including increased risk of infection. CF101 is an oral small molecule drug formulated in a tablet and has an excellent human safety profile, demonstrated in more than 1,000 patients.

Under the terms of the agreement, Can-Fite received an upfront payment of $1.65 million and is eligible for milestone payments of up to $2.0 million and royalties from product sales in Canada. The agreement provides that Can-Fite will deliver finished product to Cipher.

NANOLIPOLEE-007

In 2014, Cipher acquired the assets of Melanovus Oncology Inc. (“Melanovus”), a Pennsylvania-based life sciences company. The assets include seven pre-clinical compounds for the treatment of melanoma and other cancers, with world-wide rights. The lead product candidate, Nanolipolee-007, is a liposomal formulation of a plant-derived compound that is a cholesterol-transport inhibitor which has demonstrated anti-proliferative activity against certain melanoma cell lines (including B-RAF resistant strains) in-vitro as well as in early in-vivo studies. The plan for the development of the remaining six topical and oral skin cancer compounds in the portfolio has not yet been established. The transaction included an upfront payment to Melanovus of $0.5 million, as well as the payment of certain IP expenses related to patent prosecution and maintenance.

TATTOO REMOVAL CREAM

In May 2016, Cipher licensed from Dalhousie University the worldwide rights to develop, market and sell an investigational tattoo removal cream. The product candidate, which is applied topically, has shown encouraging results in pre-clinical testing for the removal or reduction of the appearance of tattoos. The product candidate is currently at the pre-clinical stage of development.

Under the terms of the agreement, an upfront payment of CDN$75,000 was made upon execution of the agreement and the agreement contains milestones of up to CDN$3.6 million based on future regulatory and commercial sales milestones, as well as royalties on commercial sales.

Litigation

From time to time, during the ordinary course of business, the Company may be threatened with, or may be named as, a defendant in various legal proceedings, including lawsuits based upon product liability, wrongful dismissal, personal injury, breach of contract and lost profits or other consequential damage claims.

Selected Quarterly Information

The interim consolidated statements of income (loss) and comprehensive income (loss) and interim consolidated statements of cash flow for the previously reported U.S. segment are presented as discontinued operations, separate from the Company’s continuing operations which is comprised of the Canadian segment. Certain prior period financial information on the consolidated statements of income (loss) and comprehensive income (loss) and the consolidated statements of cash flows have been updated to present the U.S. segment as a discontinued operation, and has therefore been excluded from both continuing operations and results for all periods

presented in this MD&A and the accompanying interim condensed consolidated financial statements. This MD&A reflects only the results of continuing operations, unless otherwise noted.

The loss from discontinued operations included in the consolidated statement of income (loss) and comprehensive income (loss) was $3.3 million and $5.0 million for the three and six months ended June 30, 2017, respectively. The loss from discontinued operations included in the consolidated statement of income (loss) and comprehensive income (loss) was $3.6 million and $8.1 million for the three and six months ended June 30, 2016, respectively.

The following information has been prepared in accordance with IFRS in U.S. dollars.
(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Net revenues	**9.9**	8.5	**18.1**	15.4
Total operating expenses	**3.5**	4.7	**7.0**	9.2
Total other expenses	**0.7**	3.1	**7.2**	3.6
Income for the period from continuing operations	**4.4**	0.2	**2.9**	2.0
Loss for the period from discontinued operations	**(3.3)**	(3.6)	**(5.0)**	(8.1)
Income from continuing operations per share:				
Basic and diluted earnings	**0.17**	0.01	**0.11**	0.08
Loss from discontinued operations per share:				
Basic and diluted loss	**(0.12)**	(0.14)	**(0.19)**	(0.31)
Total assets from continuing operations	**54.6**	58.8	**54.6**	58.8
Total non-current liabilities from continuing operations	**21.4**	37.4	**21.4**	37.4

The fluctuations in reported results during these periods resulted primarily from the following factors:

- In Q2 2017, the Company incurred restructuring costs of $0.6 million reported in operating expenses
- In Q1 2017, the Company recognized a loss on debt extinguishment of $5.2 million related to the early partial prepayment of the Notes

For a detailed review of operating results, see “Review of Operating Results”.

Review of Operating Results

REVENUE
(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Licensing revenue	**8,627**	7,444	**15,518**	13,392
Product revenue	**1,288**	1,093	**2,540**	2,039
Net revenues	**9,915**	8,537	**18,058**	15,431

Total net revenue increased by $1.4 million or 16% to $9.9 million for the three months ended June 30, 2017 compared to $8.5 million for the three months ended June 30, 2016. Total net revenue increased by $2.7 million or 17% to $18.1 million for the six months ended June 30, 2017 compared to $15.4 million for the six months ended June 30, 2016.

Licensing Revenue

Licensing revenue increased by $1.2 million or 16% to $8.6 million for the three months ended June 30, 2017 compared to $7.4 million for the three months ended June 30, 2016.

Licensing revenue from Absorica® in the U.S. was $7.5 million for the three months ended June 30, 2017, an increase of $1.8 million or 32% compared to $5.7 million for the three months ended June 30, 2016. The increase in licensing revenue from Absorica® related to the impact a promotional campaign that our partner implemented in March 2017, a portion of which was completed in June 2017 with the balance of the program ending in the third quarter. Licensing revenue from Lipofen and the authorized generic version of Lipofen® was $0.8 million for the three months ended June 30, 2017, a decrease of $0.2 million compared to revenue of $1.0 million for the three months ended June 30, 2016. Licensing revenue from the extended-release tramadol product (ConZip® in the U.S. and Durela® in Canada) was $0.3 million for the three months ended June 30, 2017, a decrease of $0.4 million compared to revenue of $0.7 million for the three months ended June 30, 2016.

Licensing revenue increased by $2.1 million of 16% to $15.5 million for the six months ended June 30, 2017 compared to $13.4 million for the six months ended June 30, 2016.

Licensing revenue from Absorica® in the U.S. was $13.1 million for the six months ended June 30, 2017, an increase of $2.8 million or 27% compared to $10.3 million for the six months ended June 30, 2016. Licensing revenue from Lipofen® and the authorized generic version of Lipofen® was $2.0 million for the six months ended June 30, 2017, compared to $1.9 million for the six months ended June 30, 2016. Licensing revenue from the extended-release tramadol product (ConZip® in the U.S. and Durela® in Canada) was $0.4 million for the six months ended June 30, 2017, a decrease of $0.4 million compared to revenue of $1.2 million for the six months ended June 30, 2016.

Product Revenue

Product revenue increased by $0.2 million or 18% to $1.3 million for the three months ended June 30, 2017 compared to $1.1 million for the three months ended June 30, 2016.

Product revenue from Epuris® increased to $1.1 million for the three months ended June 30, 2017 compared to $1.0 million for the three months ended June 30, 2016. According to IMS, the Canadian market for isotretinoin was CDN$18.3 million in 2016. Epuris® had a prescription market share of over 28% in Canada for the three months ended June 30, 2017 compared to 24% for the three months ended June 30, 2016.

Product revenue increased by $0.5 million or 25% to $2.5 million for the six months ended June 30, 2017 compared to $2.1 million for the six months ended June 30, 2016.

Product revenue from Epuris® increased to $2.2 million for the six months ended June 30, 2017 compared to $1.8 million for the six months ended June 30, 2016. Prescriptions for Epuris® during the six months ended June 30, 2017 increased by approximately 33% over the comparative period in the prior year (source: IMS).

Product revenue for the remaining brands, Beteflam®, Actikerall® and Vaniqa® was $0.2 million and $0.3 million for the three and six months ended June 30, 2017, respectively compared to $0.1 million and $0.2 million for the three and six months ended June 30, 2016, respectively.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Cost of products sold	**408**	368	**815**	667
Research and development	**58**	245	**169**	386
Selling, general and administrative	**3,064**	4,094	**6,003**	8,120
Total operating expenses	**3,530**	4,707	**6,987**	9,173

Total operating expenses decreased $1.2 million or 25% to $3.5 million for the three months ended June 30, 2017 compared to $4.7 million for the three months ended June 30, 2016. For the six months ended June 2017 total operating costs decreased $2.2 million or 24% to $7.0 million compared to $9.2 million for the six months ended June 30, 2016.

Cost of Products Sold

Cost of products sold for the three months ended June 30, 2017 and June 30, 2016 remained unchanged at $0.4 million. Gross margin on product sales improved by 2% to 68% for the three months ended June 30, 2017 compared to 66% for the three months ended June 30, 2016.

Cost of products sold for the six months ended June 30, 2017 was $0.8 million compared to $0.7 million for the six months ended June 30, 2016. Gross margin on product sales improved by 1% to 68% for the three months ended June 30, 2017 compared to 67% for the three months ended June 30, 2016.

Research and Development

Research and development ("R&D") expenses represent the costs directly associated with developing and advancing our pipeline products and the cost of regulatory submissions in Canada.

R&D expense was $0.1 million and $0.2 million for the three and six months ended June 30, 2017, respectively compared to $0.2 million and $0.4 million for the three and six months ended June 30, 2016, respectively.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense was $3.1 million for the three months ended June 30, 2017, a decrease of $1.0 million or 25% compared to $4.1 million for the three months ended June 30, 2016. SG&A expense was $6.0 million for the six months ended June 30, 2017, a decrease of $2.1 million or 26% compared to $8.1 million for the six months ended June 30, 2016. The decrease in SG&A costs were driven by an overall reduction in compensation costs, including share-based compensation and a reduction in professional fees. Included in SG&A for the three months ended June 30, 2017 was $0.6 million of restructuring charges.

Also, included in SG&A is amortization of intangible assets of $0.2 million for the three months ended June 30, 2017 compared to $0.2 million for the three months ended June 30, 2016. Amortization of intangibles assets for the six months ended June 30, 2017 was $0.2 million compared to $0.6 million for the six months end June 30, 2016. Included in the amortization of intangible assets for the six months ended June 30, 2016 was a write off of an asset no longer considered recoverable.

OTHER EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Interest on senior secured notes	**652**	3,143	**2,076**	4,476
Change in fair value of derivative financial instrument	**92**	44	**(6)**	126
Loss on debt extinguishment	**-**	-	**5,223**	-
Interest income	**(2)**	(11)	**(5)**	(48)
Foreign exchange gain	**(31)**	(40)	**(59)**	(934)
Total other expenses	**711**	3,136	**7,229**	3,620

Total other expenses were $0.7 million and $7.2 million for the three and six months ended June 30, 2017, respectively compared to $3.1 million and $3.6 million for the three and six months ended June 30, 2016, respectively. The decrease in the three months ended June 30, 2017 is attributable to a reduction in interest expense on the Notes. For the six months ended June 30, 2017, the increase related to the $5.2 million loss on debt extinguishment offset by a reduction in interest expense.

Loss on Debt Extinguishment

The majority of the increase in other expenses related to the loss on the debt extinguishment recognized in the first quarter of fiscal 2017, which is the difference between the carrying value of the original Notes and the fair value of the Notes on extinguishment, including the prepayment fee of $1.0 million, a borrowing fee of $1.0 million and amendment fee of $0.5 million.

Interest on Senior Secured Notes

Interest on senior secured notes decreased to $0.7 million for the three months ended June 30, 2017 from $3.1 million for the three months ended June 30, 2016. This is comprised of interest payments of $0.6 million and imputed interest accretion of $0.1 million. The

stated interest rate on the Notes is 10.25%. The decrease is related to the prepayment on the Notes in the amount of $20.0 million in April 2017.

Change in Fair Value of Derivative Financial Instrument

The gain from the change in the fair value of the derivative financial instrument was $0.1 million for the three months ended June 30, 2017 compared to a negligible gain for the three months ended June 30, 2016. The change in fair value of the derivative financial instrument was a negligible loss for the six months ended June 30, 2017 compared to a gain of $0.1 million for the six months ended June 30, 2016.

Foreign Exchange

The Company experienced a de minimus foreign exchange gain for the three and six months ended June 30, 2017 compared to a negligible foreign exchange gain for the three months ended June 30, 2016 and a $0.9 million gain for the six months ended June 30, 2016. The Company is exposed to currency risk through its net assets and certain recurring transactions denominated in Canadian dollars.

INCOME TAXES

Income tax expense is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax expense for the three and six months ended June 30, 2017 was $1.2 million and $1.0 million, respectively compared to $0.5 million and $0.6 million for the three and six months ended June 30, 2016, respectively. The increase is attributable to increase in profitability thereby drawing down the deferred tax asset.

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income.

As at June 30, 2017, the Company has recognized a deferred tax asset on the balance sheet of $5.9 million. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

INCOME (LOSS) AND INCOME (LOSS) PER SHARE

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Income for the period from continuing operations	**4,437**	234	**2,875**	2,016
Basic and diluted earnings per share from continuing operations	**0.17**	0.01	**0.11**	0.08
Loss for the period from discontinued operations	**(3,268)**	(3,605)	**(5,030)**	(8,081)
Basic and diluted loss per share from discontinued operations	**(0.12)**	(0.14)	**(0.19)**	(0.31)
Income (loss) and comprehensive (loss) for the period	**1,169**	(3,371)	**(2,155)**	(6,065)
Basic and diluted earnings (loss) per share	**0.05**	(0.13)	**(0.08)**	(0.23)

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated taking into account dilutive instruments that are outstanding. For the three and six months ended June 30, 2017, the computation of diluted loss per share approximates the basic loss per share due to the de minimus impact of dilutive instruments.

Income from continuing operations per share on a basic and diluted basis for the three and six months ended June 30, 2017 was $0.17 and $0.11, respectively compared to income per share on a basic and diluted basis of $0.01 and $0.08 for the three and six months ended June 30, 2016, respectively.

The weighted average number of shares outstanding for the three and six months ended June 30, 2017 was 26,533,846 and 26,461,581, respectively (three and six months ended June 30, 2016 – 26,171,530 and 26,129,099, respectively).

The dilutive weighted average number of shares outstanding for the three and six months ended June 30, 2017 was 26,778,894 and 26,830,834, respectively (three and six months ended June 30, 2016 – 26,933,363 and 26,673,865, respectively).

ADJUSTED EBITDA

(IN THOUSANDS OF U.S. DOLLARS)

EBITDA is a non-IFRS financial measure. The term EBITDA (earnings before interest, taxes, depreciation and amortization,) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, (gain) loss on debt extinguishment, non-cash share-based compensation, changes in fair value of derivative financial instruments, impairment of intangible assets and goodwill and foreign exchange gains and losses from the translation of Canadian cash balances.

The Company considers Adjusted EBITDA as a key metric in assessing business and management performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts.

Adjusted EBITDA for the three months ended June 30, 2017 was $6.7 million, an increase of $1.9 million or 40% compared to $4.8 million for the three months ended June 30, 2016.

Adjusted EBITDA for the six months ended June 30, 2017 was $11.9 million, an increase of $4.5 million or 60% compared to $7.4 million for the six months ended June 30, 2016.

The following is a summary of how EBITDA and Adjusted EBITDA are calculated:

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Income from continuing operations	**4,437**	234	**2,875**	2,016
Add back:				
Depreciation and amortization	**240**	388	**482**	637
Interest expense, net	**650**	3,132	**2,071**	4,428
Income taxes	**1,237**	460	**967**	622
EBITDA	**6,564**	4,214	**6,395**	7,703
Change in fair value of derivative financial instrument	**92**	44	**(6)**	126
(Gain) loss from the translation of Canadian cash balances	**8**	20	**17**	(1,421)
Loss of debt extinguishment	**-**	-	**5,223**	-
Share-based compensation	**29**	486	**238**	1,000
Adjusted EBITDA	**6,693**	4,764	**11,867**	7,408

Liquidity and Capital Resources

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Income from continuing operations	**4,437**	234	**2,875**	2,016
Cash provided by operating activities	**4,456**	5,614	**5,599**	7,749
Cash used in investing activities	**7,433**	(90)	**7,433**	(109)
Cash used in financing activities	**(22,823)**	(939)	**(23,592)**	(1,730)
Cash used in discontinued operations	**(3,095)**	(2,582)	**(4,246)**	(3,728)
Net change in cash	**(14,029)**	2,003	**(14,806)**	2,182
Impact of foreign exchange on cash	**(8)**	(20)	**(17)**	1,421
Cash, beginning of period	**33,700**	28,802	**34,486**	27,182
Cash, end of period	**19,663**	30,785	**19,663**	30,785

Cash

As at June 30, 2017, the Company had cash of $19.7 million compared to $30.8 million as at June 30, 2016. The significant decrease is primarily attributable to the prepayment on the Notes in the amount of $22.5 million inclusive of transaction fees and penalties.

Operating Activities

Cash provided by operating activities was $4.5 million for the three months ended June 30, 2017 compared to $5.6 million for the three months ended June 30, 2016. The decrease in cash provided by operating activities reflects a $4.7 million investment of working capital compared to an $0.8 million investment in working capital in the comparative prior period. Cash provided by operations, excluding working capital was $9.2 million for the three months ended June 30, 2017 compared to $4.8 million for the three months ended June 30, 2016. The significant increase in the working capital is directly attributable to the increase in accounts receivable from our licensing partners. Royalties earned are paid by our partners on a quarterly basis. The increase corresponds to the increase in licensing revenue during the quarter.

For the six month ended June 30, 2017, cash provided by operating activities was $5.6 million compared to $7.7 million for the six months ended June 30, 2016. The decrease reflects an investment of $6.3 million of working capital compared to a recovery of $0.3 million of working capital in the comparative prior period.

Investing Activities

Cash provided by investing activities for the three and six months ended June 30, 2017 related to the sale of the U.S. assets. On closing the Company received $7.6 million in cash.

Financing Activities

Cash used in financing activities was $22.8 million for the three months ended June 30, 2017 compared to $0.9 million for the three months ended June 30, 2016. In the current period, interest payments on the Notes were partially offset by proceeds from shares issued under the Company's share purchase plan and from the exercise of stock options. The increase in cash used in financing activities during the quarter related to the prepayment on the Notes.

Cash used in financing activities was $23.6 million for the six months ended June 30, 2017 compared to $1.7 million for the six months ended June 30, 2016.

Future cash requirements will depend on a number of factors, including investments in product launches, expenditures on R&D for product candidates, costs associated with maintaining regulatory approvals, the timing of payments received or made under licensing or other collaborative agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the acquisition of licenses for new products or technologies, the status of competitive products and the success of the Company in developing and maintaining markets for its products.

As at June 30, 2017, the Company has finance lease contractual obligations on its fleet and operating leases for the Company's two office locations. The fleet leases expire between June 2020 and August 2020. The lease for the Company's Canadian premises expires at the end of December 2018 and the lease for the Company's U.S. premises expires in January 2023.

Financial Instruments

At June 30, 2017, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the Notes, and the derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the interim statements of income (loss) and comprehensive (loss) and is classified as Level 2 in the fair value hierarchy. Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their relatively short periods of maturity.

The Notes are measured at amortized cost. At June 30, 2017, the fair value of the remaining Notes is approximately $19.6 million. The fair values are based on cash flows discounted using a rate based on the borrowing rate.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk and interest rate risk.

Risk Management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentration of credit risk consist of cash and accounts receivable. The Company's investment policies are designed to mitigate the possibility of a deterioration of principal and enhance the Company's ability to meet its liquidity needs and provide reasonable returns within those parameters. Cash is on deposit with Canadian and U.S. chartered banks. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts.

The Company has concentration risk, as approximately 83.4% of total sales came from two customers and 85.8% of total accounts receivable came from one customer.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Currency Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. dollars. The Company is exposed to currency risk through its net assets and certain recurring transactions that are denominated in Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Notes bear interest at fixed rates and as such are not subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series, and an unlimited number of voting common shares. As at June 30, 2017, the Company had 26,618,558 common shares issued and outstanding compared to 26,188,151 at June 30, 2016. Subsequent to quarter end, 2,291 common shares were issued under the Company's employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 26,620,849 as of the date of this MD&A.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Risk Factors

Reference is made to the description of risk factors with respect to the Company and its business in the Company's most recently filed Annual Information Form filed on SEDAR at www.sedar.com and to related information in other filings with Canadian securities regulatory authorities.

Disclosure Controls and Procedures

There have been no changes in the Company's internal control over financial reporting during the most recent interim period ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of the end of the period covered by this MD&A and the accompanying condensed interim consolidated financial statements, the Company's management evaluated the design of its disclosure controls and procedures and internal controls over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed interim consolidated financial statements for external purposes in accordance with IFRS as at June 30, 2017.